



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Required Report - public distribution

Date: 5/01/2002

GAIN Report #KS2019

# **Korea, Republic of**

## **Tobacco and Products**

### **Annual**

### **2002**

Approved by: **Michael T. Henney**  
**U.S. Embassy, Seoul**

Prepared by: Y.J. Kim

---

#### **Report Highlights:**

The Korean tobacco industry is undergoing fairly rapid change since abolishment of monopoly powers granted to the Korea Tobacco & Ginseng Corporation (KTGC). Domestic leaf tobacco producers are facing market-induced changes brought about a large disequilibrium in local ingredient supply and consumer demand while KTGC is having to respond to changing consumer preferences, keener foreign competition and an extended anti-smoking campaign.

---

Includes PSD changes: Yes  
Includes Trade Matrix: Yes  
Annual Report  
Seoul [KS1], KS

## &lt;Table of Contents&gt;

Leaf Tobacco Market Situation .....	1
Cigarette Market Situation .....	2
Statistical Tables .....	5
PSD Tables .....	5
PSD Table - Tobacco, Unmfg, Total .....	5
PSD Table- Burley Tobacco .....	6
PSD Table - Flue-cured Tobacco .....	7
PSD Table - Cigarette .....	8
Production Table - Unmanufactured Tobacco Total .....	8
Trade Matrix .....	9
Korea: Total Imports of Unmanufactured Tobacco for CY2001 - 2002 .....	9
Korea: Imports of Burley for CY2001 - 2002 .....	9
Korea: Imports of Flue-cured for CY2001 - 2002 .....	9
Korea: Imports of Oriental for CY 2001 -2002 .....	10
Korea: Total Exports of Unmanufactured Tobacco for CY 2001 -2002 .....	10
Korea: Exports of Burley Tobacco CY 2001 - 2002 .....	10
Korea: Exports of Flue-cured Tobacco for CY 2001 - 2002 .....	11
Korea: Imports of Filter Tip Cigarettes for CY 2001 - 2002 .....	11
Korea: Exports of Filter Tip Cigarettes for CY 2001 - 2002 .....	12
Price Tables .....	12
Korea: Purchase Price of Burley and Flue-cured Tobacco by KT&G for 2001 .....	12
Korea: Import Prices of Flue-cured and Oriental Tobacco .....	13
Korea: Export Prices of Burley and Flue-cured Tobacco .....	13
Market Share .....	13
Korea: Domestic and Foreign Cigarette Sales .....	13
Korea: Cigarette Sales by Major Market Competitors for CY 2000 -2002 .....	14
Korea: Market Share of Top 5 Foreign Brands Cigarettes for CY 2000 - 2002 .....	14
Tariffs and Taxes .....	15
Korea: Taxes and Charges for Cigarettes .....	15
Korea: Tobacco and Cigarettes Tariff Rates .....	15

## Leaf Tobacco Market Situation

In 2002, Korean tobacco production is projected to contract by more than 10 percent as the Korea Tobacco and Ginseng Corporation (KTGC) is switching to a contracting regime based on volume, not planted area. In addition to buying based on contracted volume, KTGC is applying other measures, such as freezing farm gate price at last year's level, using a more stringent grading standard, and prohibiting contracting with new entrants in the sector, to control supply and improve quality of leaf tobacco.

The Agreement on Leaf Tobacco Production and Purchase, signed in 2001 in exchange for the domestic tobacco sector's support of KTGC's privatization, stipulates that KTGC support the tobacco sector until 2008 when the newly formed Leaf Tobacco Federation will take over such function. Under the agreement, KTGC is to continue previous support programs provided to producer. This should include their providing a 30 percent advance deficiency payment on new crop leaf tobacco having a 0 percent interest charge. The organization also should continue providing technical guidance on cultivation practices and other similar support programs during the phase in period for the new Federation.

Major components of the Agreement include:

- a) KTGC's purchase of tobacco crops thru 2008,
- b) KTGC's guaranteed planting area of at least 22,000 ha (+/- 10 percent),
- c) establishment of the Leaf Tobacco Federation with collection of operating fund,
- d) details of the long-term agreement to be stipulated later.

In January 2002, the Leaf Tobacco Federation was created. Its function is to support tobacco production related projects including:

- a) development of tobacco farming technology,
- b) improvement of soil quality (ex. compound fertilizer),
- c) compensation for crop damage by natural disasters,
- d) personnel expense for tobacco farmers cooperatives.

The Federation will start performing its major functions in 2008. In the interim period it would be allowed to collect operating capital for when it formally assumes its duties. Total operating capital to be collected are 410 billion won (or \$315 million) sourced as follows: 110 billion won from KTGC, and 300 billion won from the "health" tax of 10 won per pack of cigarettes. (Note: The Ministry of Agriculture and Forestry (MAF) appropriated budget shows no support offered to the tobacco sector under its 42 trillion won farm/fishery community foundation projects' section.)

In 2002, domestic leaf tobacco consumption is projected to decline as is KTGC's total share in the domestic cigarette market in the face of stiff competition from cheaper foreign brand products. KTGC's strategy to overcome lost domestic market share is to expand export markets using product manufactured with a cheaper foreign leaf input (mainly from Brazil). Demand for Korean leaf tobacco from major buyers -- France and Turkey (barter trade for oriental leaf tobacco) -- are expected to shrink due to excessive stocks in those countries.

The stockpiling of inventory is creating a problem for KTGC. Lower consumption of domestic leaf tobacco combined with falling exports should outpace contraction in domestic production this year. Currently stocks exceed 40 months' supply requirements. KTGC believes the optimum inventory is 27 months supply.

Privatization of KTGC is projected to be completed this year. The government's plan is to sell its remaining 33 percent stake in KTGC as follows; 14 percent to foreign investors through issuance of DR or EB and 19 percent to domestic buyers through an open bidding process. In order to allow the 14 percent to be sold abroad, last March KTGC modified its Article of Incorporation to raise the ceiling on foreign ownership from 35 percent to 49 percent. Currently, KTGC's ownership structure is 35 percent foreign owned, 33 percent state-owned banks, 19 percent local share holders, 13 percent KTGC via a share buyback program. Over the next five years KTGC plans to expand its share buyback program to acquire 30 percent of issued stocks.

Foreign direct investment in the Korean tobacco sector to date is limited to that by British American Tobacco (BAT). Reports earlier this year of a major investment by Philip Morris (PM) remain unconfirmed. The Korean government appears to be wavering over granting various tax incentives for foreign investment in the tobacco sector which could preclude finalization of existing negotiations.

## Cigarette Market Situation

In 2002, the Korean cigarette market is expected to contract marginally particularly in reaction to an unusually long and active anti-smoking campaign. Domestic brands are expected to be harder hit than imported brands.

For its part in the anti-smoking effort the Korean government has been active on the public health front proposing new anti-smoking legislation and initiatives, including:

- a) increasing the health fund from two to 150 won per pack of cigarettes (Note: of 150 won, 3 percent is dedicated to public health promotion and 97 percent is dedicated to a national health insurance plan,
- b) implementing a smoking ban during 2002 World Cup games,
- c) adopting smoking bans in schools, hospitals, internet cafes, government facilities and outdoor stadiums,
- d) empowering building owners to designate their facilities "smoke free,"
- e) applying mandatory labeling of harmful ingredients in cigarettes starting from 2003.

More significantly, last November the government unveiled the "National Comprehensive Anti-Smoking Plan," which targets prevention of youth smoking, protection of nonsmokers from secondhand smoke, and reduction in the smoking rate in males from 67.8 percent to 30 percent and in females from 6.7 percent to 5.0 percent by the year 2010.

On April 19, 2002, the government proposed revising the regulations implementing the Public Health Promotion Act. Major modifications include reducing advertisement frequency, restricting sales promotion using sports events, removing vending machines from various locations, enlarging the warning notice on cigarette packs, and further expanding designated "smoke free" areas. The government's target is to finalize the revision by July this year.

Though no direct government involvement is visible, major broadcasting companies' simultaneous airing of reports on tobacco to focus public awareness of the associated health risks of smoking indicates a coordinated effort is underway. In addition, the print media is also printing more reports on this issue. A recent newspaper survey showed out of 100 large companies in Korea, 79 companies are participating in an anti-smoking campaign and 23 companies are classifying their building as smoke-free. The article went on to report that 12 of the 23 companies are considering joining with the anti-smoking campaign within the next two to three years.

First quarter CY 2002 data shows a decline of 7 percent in cigarette consumption compared to the same period 3 year average. While some parties attribute this decline to the anti-smoking campaign, it is important to remember that prior to the Feb 2001 tax increase retailers stockpiled substantial quantities of cigarettes. The true effect of the anti-smoking effort may be somewhere in between.

The battle for the Korean cigarette market is raging. During the past year foreign brand sales volume has been extremely strong -- PM's growth stands at 43 percent, BAT's growth stands at 227 percent, while that for KTGC has declined 12 percent. In 2001, foreign brand total market shares reached a record 16 percent. Through the first quarter 2002, this figure exceeds 20 percent. Consumer age is given as one explanation for the strong performance of foreign brand cigarettes in the face of the ongoing anti-smoking campaign and a Feb 2002 tax increase. Older smokers are more nationalistic, more influenced by government-raised health concerns and more price conscious. The health fund tax increase, from two to 150 won translates to a 200-300 won per pack retail price increase. Older smokers are prime consumers of the cheaper local brand cigarettes and a substantial increase in price would play a significant role in their buying decision. Younger smokers, on the other hand, tend to be more-image conscious and less swayed by taxes applied on more expensive products.

Further, in reaction to the price increase, some customers of KTGC's high-end brands have moved over to foreign brands as quality differences negate any small remaining price advantage the domestic brand enjoyed.

To cope with the rapidly changing market and to better compete, KTGC is placing more emphasis on retail marketing and is working on developing higher-quality cigarettes. More dramatic, KTGC abandoned its cash payment policy and introduced a 30-day credit line program for retailers of its brands.

Among foreign competitors, BAT has a strong grip on the market. During recent months BAT's sales accounted for 40 percent of the market. BAT's recent success is attributed to its introduction of the best-selling Dunhill brand. Its beveled package gives it an image of higher quality and differentiates it from other brands. BAT's market share is expected to grow when its domestic operations comes on line producing popular international brands that hold a domestic product tag.

KTGC's longer term strategy is to increase exports as a percent of total manufactured volume. Currently, KTGC exports 13 percent of cigarettes produced. By 2005, KTGC's goal is to export 30 percent of production. KTGC sees export markets as key to its long term financial well-being as the domestic market continues to attract keener competition. Over the past six years KTGC has conducted intensive marketing campaigns for its PINE family brands in Central Asia and the Middle East. More recently, KTGC signed a Memorandum of Understanding (MOU) on Tobacco Business with the China State Tobacco Monopoly Administration to promote mutual development of each country's tobacco business through exchange of personnel, information, and technology. Through 2001 KTGC exported to China 4 million packs of cigarettes under the MOU. This year, KTGC plans to expand that volume to 60 million packs with half to be distributed in the local market and the balance thru duty free shops.

The Korean market is showing a shift in consumer preference for milder, slimmer and higher quality cigarettes. In 2001, KTGC's sales of slim-sized cigarettes exceeded 30 percent, up from the 1997 figure of less than 10 percent. China has introduced and had good marketing with several new brands of cigarettes promoted as milder in taste, as lower in tar and nicotine, and as treated with oriental medicinal herbs to reduce any toxicity.

Hard packs and lively packaging designs also are grabbing attention as consumers perceive these package characteristics as indicators of quality. Over the past several months' major producers have introduced cigarette brands in new packaging, reflecting their awareness of changing consumer attitudes. Japanese Tobacco (JT) introduced Mild Seven Slim Lights in Round Box. BAT introduced Dunhill Lights 2002 in a specially designed jumbo carton. KTGC introduced several brands in new packaging -- CIMA in hard pack, Humming Time, Time 2002 in custom designed packages each hold a soccer theme to commemorate the World Cup Games, and Seasons touted as extremely low in tar (Note: Seasons is a joint Korean-Japanese brand).

KTGC's joint venture efforts with North Korea are at a standstill. The South/North Korean brands (Hanmanum and IPS), produced in North Korea and jointly marketed in both countries, garnered little consumer interest in the South beyond the novelty factor because of unfavorable taste. KTGC discontinued production of those brand in North Korea due to weak demand and higher production costs associated to transportation and outdated manufacturing equipment. KTGC still intends to produce 30 million packs of cigarettes annually in North Korea -- 'Sol' brand cigarettes, but to market it solely in South Korea. The brand sells for 200 won per pack.

Over the next 3-5 years, the Korean tobacco sector is expected to change quite significantly. Area devoted to leaf tobacco production should diminish given less support from KTGC and imports of cheaper foreign leaf tobacco should increase as KTGC must optimize resources to remain competitive in a more liberalized environment. Cigarette consumption is expected to decline at a modest pace as rising concern over smoking-related health problems and stronger social rules via government regulations make the practice less enticing to smokers. Changing consumer preference toward higher-priced quality products should result in expanded market shares for foreign brand cigarettes, which should command about one third of the domestic cigarette market in a few years. In the face of stiffer foreign competition, KTGC should become more aggressive in its efforts to find foreign markets for its brands. Direct foreign investment in the sector will be slow as learning the intricacies of the Korean tobacco industry will take time.

## Statistical Tables

### PSD Tables

#### PSD Table - Tobacco, Unmfg, Total

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Unmfg., Total				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	24300	24302	23900	23940	0	21200
Beginning Stocks	127909	127909	126473	126473	125673	126250
Farm Sales Weight Prod	59600	68198	60000	55587	0	52350
Dry Weight Production	53660	61378	54000	50028	0	47115
U.S. Leaf Imports	6000	5325	5500	3844	0	4000
Other Foreign Imports	5500	6986	10000	9969	0	10300
TOTAL Imports	11500	12311	15500	13813	0	14300
TOTAL SUPPLY	193069	201598	195973	190314	125673	187665
Exports	6500	3585	3800	3254	0	3000
Dom. Leaf Consumption	55000	60040	53500	45993	0	41160
U.S. Leaf Dom. Consum.	6000	5000	5000	4050	0	4100
Other Foreign Consump.	6085	6500	8000	9767	0	10500
TOTAL Dom. Consumption	67085	71540	66500	59810	0	55760
TOTAL Disappearance	73585	75125	70300	63064	0	58760
Ending Stocks	119484	126473	125673	127250	0	128905
TOTAL DISTRIBUTION	193069	201598	195973	190314	0	187665

**PSD Table- Burley Tobacco**

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Unmfg., Burley				(HA)(MT)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	7120	7116	6800	6807	0	6030
Beginning Stocks	52358	55262	54705	54705	51405	53250
Farm Sales Weight Prod	19200	22128	18000	17989	0	16400
Dry Weight Production	17300	19915	16200	16190	0	14760
U.S. Leaf Imports	0	0	0	0	0	0
Other Foreign Imports	0	0	0	0	0	0
TOTAL Imports	0	0	0	0	0	0
TOTAL SUPPLY	69658	75177	70905	70895	51405	68010
Exports	4500	2793	3000	1902	0	1500
Dom. Leaf Consumption	16000	17679	16500	15743	0	14510
U.S. Leaf Dom. Consum.	0	0	0	0	0	0
Other Foreign Consump.	0	0	0	0	0	0
TOTAL Dom. Consumption	16000	17679	16500	15743	0	14510
TOTAL Disappearance	20500	20472	19500	17645	0	16010
Ending Stocks	49158	54705	51405	53250	0	52000
TOTAL DISTRIBUTION	69658	75177	70905	70895	0	68010



**PSD Table - Flue-cured Tobacco**

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco,Unmfg.,Flue Cured (HA)(MT)					
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Area Planted	17180	17186	17100	17133	0	15170
Beginning Stocks	68962	68962	68268	68268	69268	69500
Farm Sales Weight Prod	40400	46070	42000	37598	0	35950
Dry Weight Production	36360	41463	37800	33838	0	32355
U.S. Leaf Imports	6000	5325	5500	3844	0	4000
Other Foreign Imports	0	2404	4000	4802	0	5300
TOTAL Imports	6000	7729	9500	8646	0	9300
TOTAL SUPPLY	111322	118154	115568	110752	69268	111155
Exports	1000	792	800	1352	0	1500
Dom. Leaf Consumption	38500	42094	37000	31250	0	26650
U.S. Leaf Dom. Consum.	6000	5000	5000	4050	0	4100
Other Foreign Consump.	0	2000	3500	4600	0	5500
TOTAL Dom. Consumption	44500	49094	45500	39900	0	36250
TOTAL Disappearance	45500	49886	46300	41252	0	37750
Ending Stocks	65822	68268	69268	69500	0	73405
TOTAL DISTRIBUTION	111322	118154	115568	110752	0	111155

**PSD Table - Cigarette**

PSD Table						
Country	Korea, Republic of					
Commodity	Tobacco, Mfg., Cigarettes				(MIL PCS)	
	Revised	2000	Preliminary	2001	Forecast	2002
	Old	New	Old	New	Old	New
Market Year Begin		01/2000		01/2001		01/2002
Filter Production	94000	98286	95500	97700	0	93000
Non-Filter Production	0	0	0	0	0	0
TOTAL Production	94000	98286	95500	97700	0	93000
Imports	7200	9378	13000	15500	0	20000
TOTAL SUPPLY	101200	107664	108500	113200	0	113000
Exports	2700	6712	9000	12800	0	18000
Domestic Consumption	98500	100952	99500	100400	0	95000
TOTAL DISTRIBUTION	101200	107664	108500	113200	0	113000

**Production Table - Unmanufactured Tobacco Total**

	Area Planted			Production		
	(HECTARES)			Metric Tons		
	1999	2000	2001	1999	2000	2001
Tobacco, Unmfg., Burley	7116	6807	6030	22128	17989	16400
Dark Air & Sun Cured	0	0	0	0	0	0
Dark Air Cured	0	0	0	0	0	0
Dark Fire Cured	0	0	0	0	0	0
Tobacco, Unmfg., Flue Cured	17186	17133	15170	46070	37598	35950
Light Air Cured	0	0	0	0	0	0
Tobacco, Unmfg., Oriental	0	0	0	0	0	0
Tobacco, Unmfg.	24302	23940	21200	68198	60000	52350

**Trade Matrix****Korea: Total Imports of Unmanufactured Tobacco for CY2001 - 2002**

	2001		2002 (Jan-Feb)	
Country	\$1000	MT	\$1000	MT
BRAZIL	12,127	4,309	1,611	505
U.S.A	29,489	3,844	11,080	1,319
GREECE	16,348	3,007	7,779	1,617
TURKEY	7,226	1,979	2,089	849
PR.CHINA	1,205	493	0	0
BULGARIA	486	181	0	0
Total	66,881	13,813	22,559	4,290

Source: Korea Trade Information Services

**Korea: Imports of Burley for CY2001 - 2002**

	2001		2002 (Jan-Feb)	
Country	\$1000	MT	\$1000	MT
U.S.A.	0	0	0	0
Other	0	0	0	0
Total	0	0	0	0

Source: Korea Trade Information Services

**Korea: Imports of Flue-cured for CY2001 - 2002**

	2001		2002 (Jan-Feb)	
Country	\$1000	MT	\$1000	MT
U.S.A	29,489	3,844	11,080	1,319
BRAZIL	12,127	4,309	1,611	505
PR.CHINA	1,205	493	0	0
Total	42,820	8,646	12,690	1,824

Source: Korea Trade Information Services

**Korea: Imports of Oriental for CY 2001 -2002**

Country	2001		2002 (Jan-Feb)	
	\$1000	MT	\$1000	MT
GREECE	16,348	3,007	7,779	1,617
TURKEY	7,226	1,979	2,089	849
BULGARIA	486	181	0	0
Total	24,060	5,167	9,868	2,466

Source: Korea Trade Information Services

**Korea: Total Exports of Unmanufactured Tobacco for CY 2001 -2002**

Country	2001		2002 (Jan-Feb)	
	\$1000	MT	\$1000	MT
GREECE	2,547	587	902	193
TURKEY	7,291	1,749	0	0
FRANCE	3,034	864	0	0
U.S.A	170	54	0	0
Total	13,041	4,606	902	193

Source: Korea Trade Information Services

**Korea: Exports of Burley Tobacco CY 2001 - 2002**

Country	2001		2002 (Jan-Feb)	
	\$1000	MT	\$1000	MT
GREECE	1,107	300	206	54
FRANCE	3,034	864	0	0
TURKEY	3,020	684	0	0
U.S.A	170	54	0	0
Total	7,330	1,902	206	54

Source: Korea Trade Information Services

**Korea: Exports of Flue-cured Tobacco for CY 2001 - 2002**

Country	2001		2002 (Jan-Feb)	
	\$1000	MT	\$1000	MT
GREECE	1,440	287	696	139
TURKEY	4,271	1,065	0	0
Total	5,711	1,352	696	139

Source: Korea Trade Information Services

**Korea: Imports of Filter Tip Cigarettes for CY 2001 - 2002**

Country	2001		2002 (Jan-Feb)	
	\$1000	MT	\$1000	MT
U.S.A	82,994	5,347	13,736	905
U. K	46,725	4,232	13,376	1,211
JAPAN	60,967	4,134	8,069	642
GERMANY	17,609	1,030	1,990	121
PR.CHINA	2,072	375	763	139
SPAIN	3,598	12	75	8
HONG KONG	145	357	103	8
SWEDEN	186	11	35	3
GREECE	80	8	32	3
Other	0	0	0	0
Total	214,514	15,513	38,208	3,043

Source: Korea Trade Information Services

**Korea: Exports of Filter Tip Cigarettes for CY 2001 - 2002**

Country	2001		2002 (Jan-Feb)	
	\$1000	MT	\$1000	MT
U.A.E.	25,268	3,906	4,353	1,759
AFGHANISTAN	15,718	6,458	7,752	985
TURKMENISTAN	10,221	2,690	3,821	978
UZBEKISTAN	6,708	821	426	142
U.S.A	14,009	1,751	2,332	94
SINGAPORE	446	27	32	93
RUSSIA	159	39	66	12
PR.CHINA	727	55	43	13
AUSTRALIA	332	33	74	12
MONGOLIA	279	10	64	6
KYRGYZSTAN	103	48	364	5
PHILIPPINES	99	78	20	6
GUAM(USA)	109	11	15	2
SPAIN	126	11	62	2
A.SAMOA	48	8	15	3
MICRONESIA	9	2	12	2
Other	2043	461	37	4
Total	76,404	16,409	19,488	4,118

Source: Korea Trade Information Services

**Price Tables****Korea: Purchase Price of Burley and Flue-cured Tobacco by KT&G for 2001**

(Unit in Kg/Won)

Stalk Position	Leaf & Cutter				Tip & Lug		
Grade	No. 1	No. 2	No. 3	No. 4	No. 1	No. 2	No. 3
Burley	6,610	5,980	5,410	4,400	5,630	4,750	4,110
Flue-cured	7,660	6,940	6,200	5,040	6,520	5,430	4,660

Source: KTGC

**Korea: Import Prices of Flue-cured and Oriental Tobacco**

(US\$/Kg, CIF basis)

Year	1994	1995	1996	1997	1998	1999	2000	2001
Flue-cured	5.91	7.39	8.41	9.07	9.16	8.49	6.71	4.95
Oriental	4.59	5.02	5.45	5.45	6.07	5.37	4.8	4.65

Source: Korea Trade Information Services

**Korea: Export Prices of Burley and Flue-cured Tobacco**

(US\$/Kg, FOB basis)

Year	1994	1995	1996	1997	1998	1999	2000	2001
Burley	6.99	8.11	4.6	No trade	4.33	4.13	3.85	3.85
Flue-cured	6.11	6.06	4.43	4.14	4.31	4.87	4.95	4.22

Source: Korea Trade Information Services

**Market Share****Korea: Domestic and Foreign Cigarette Sales**

(unit in Million sticks)

Year	Domestic	Growth	Foreign	Growth	Total	Growth
1990	91,527	4.0%	4,188	-0.4%	95,715	3.8%
1991	93,848	2.5%	4,990	19.2%	98,838	3.3%
1992	96,356	2.7%	5,333	6.9%	101,689	2.9%
1993	99,119	2.9%	7,158	34.2%	106,277	4.5%
1994	87,699	-11.5%	8,549	19.4%	96,248	-9.4%
1995	88,293	0.7%	12,490	46.1%	100,783	4.7%
1996	93,010	5.3%	11,509	-7.9%	104,519	3.7%
1997	92,622	-0.4%	11,686	1.5%	104,308	-0.2%
1998	101,326	9.4%	5,246	-55.1%	106,572	2.2%
1999	89,322	-11.8%	6,167	17.6%	95,489	-10.4%
2000	95,068	6.4%	9,872	60.1%	104,940	9.9%
2001	83,416	-12.3%	15,501	57.1%	98,917	-5.7%

Source: Industry



**Korea: Cigarette Sales by Major Market Competitors for CY 2000 -2002**

(Unit in Million Sticks)

Company	2000		2001		2002 (Jan-Mar)	
	Sales	Mkt Shr	Sales	Mkt Shr	Sales	Mkt Shr
KT&G (Korea)	95,075	90.6%	83,416	84.3%	16814	79.2%
Philip Morris (USA)	4,372	4.2%	6,138	6.2%	1440	6.8%
Japan Tobacco (Japan)	3,725	3.6%	4,115	4.2%	975	4.6%
British American Tobacco (U.K)	1,757	1.7%	4,620	4.7%	1767	8.3%
Other	15	0.0%	628	0.6%	221	1.0%
Total Sales	104,944	100%	98,917	100.0%	21,217	100.0%

Source: Industry

**Korea: Market Share of Top 5 Foreign Brand Cigarettes for CY 2000 - 2002**

(Unit in %)

	2000	2001	2002 (Jan-Mar)
Mild Seven (JT)	34.6%	24.7%	20.6%
Virginia Slims (PM)	22.6%	20.5%	16.6%
Dunhill (BAT)	13.2%	27.5%	38.9%
Marlboro (PM)	12.1%	12.4%	11.5%
Philip Morris SP LTS (PM)	8.8%	6.1%	4.1%
Other	8.7%	8.8%	8.4%

Source: Industry

## Tariffs and Taxes

### Korea: Taxes and Charges for Cigarettes

(As of February 1, 2002, Unit in Won)

Tax and Charge	Retail price of 2,000 Won per pack of cigarettes
Taxes	
* Consumption (Excise) tax	510
* Education Tax (50% of Consumption tax)	255
* Value added tax (10% of wholesale price)	164
Charges	
* Health Fund (Public Health Promotion Supporting Fund)	150
* Green Fund (Public Environment Supporting Fund)	4
* Subsidy Fund (Leaf Tobacco Cultivation Stabilizing Fund) 1/	10
Subtotal of taxes and charges	1,093
Retailer's Margin (10% of retail price)	200
Net Cost per pack of cigarettes	707

Note: 1/ Subsidy fund is charged to KT&amp;G only, not foreign cigarette manufacturers in Korea

Source: Industry

### Korea: Tobacco and Cigarettes Tariff Rates

HS code	Description	Actual Applying Rate			WTO Bound Rates 1/		
		2002	2003	2004	2002	2003	2004
2401	Unmanufactured tobacco:	20	20	20	57.4	55.7	54.0
2402	Cigars, cheroots, cigarillos, and cigarettes, of tobacco or of tobacco substitutes 2/	20	30	40	72.4	69.0	65.5
2403	Other manufactured tobacco and manufactured tobacco substitutes, homogenized" or "reconstituted" tobacco, tobacco extracts and essences.	40	40	40	72.4	69.0	65.5

1/ According to the WTO agreement, the tariff rate is scheduled to drop evenly over a 10 year period between 1995 to 2004.

2/ Effective date is July 1 each year. Thru the end of June 2002, a 10-percent tariff is to be imposed on products classified under HS2402.